

SUMMARY ANALYSIS OF AMENDED BILL

Franchise Tax Board

Author: Hollingsworth Analyst: Darrine Distefano Bill Number: SB 4

Related Bills: See Prior Analysis Telephone: 845-6458 Amended Date: March 17, 2003

Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: PIT Rates/Reduce All Marginal Tax Rates Beginning On or After January 1, 2003 & Eliminate Alternative Minimum Tax Beginning On or After January 1, 2007

DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended _____.

☒ AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced/amended _____.

FURTHER AMENDMENTS NECESSARY.

DEPARTMENT POSITION CHANGED TO _____.

☒ REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED December 2, 2002 STILL APPLIES.

☒ OTHER - See comments below.

SUMMARY

This bill would:

- Reduce all personal income tax (PIT) rates over a five-year period to zero,
- Reduce all alternative minimum tax (AMT) rates over a five-year period to zero.

SUMMARY OF AMENDMENTS

The March 17, 2003, amendments:

- Delete the provisions that would have modified how nonresident and part-year residents are taxed,
- Adds the current rules used by nonresidents and part-year residents for calculating the rate of tax based on income sources, and
- Reduce the AMT rate over a five-year period to zero.

The March 17th amendments resolved the department's implementation consideration regarding the method for calculating the tax for nonresidents and part-year residents, and the policy consideration regarding the elimination of the AMT rate. However, since this bill is now incrementally reducing the AMT rate over a five-year period, a chart under THIS BILL and a revised revenue estimate are provided below. As a result of the amendments, a new technical concern has been identified below. The remainder of the department's analysis of the bill as introduced December 2, 2002, still applies.

Board Position:

<input type="checkbox"/> S	<input type="checkbox"/> NA	<input type="checkbox"/> NP
<input type="checkbox"/> SA	<input type="checkbox"/> O	<input type="checkbox"/> NAR
<input type="checkbox"/> N	<input type="checkbox"/> OUA	<input checked="" type="checkbox"/> PENDING

Legislative Director
Brian Putler

Date
03/26/03

POSITION

Pending.

ANALYSIS

THIS BILL

Beginning with the 2003 taxable year, this bill would incrementally reduce all AMT rates to zero by January 1, 2007. This bill would effectively eliminate AMT.

The AMT rates proposed by this bill are in the following table:

AMT Rates					
<i>Current (2002)</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>	<i>2006</i>	<i>2007</i>
7%	5.6%	4.2%	2.8%	1.4%	0%

TECHNICAL CONSIDERATIONS

In the bill as introduced December 2, 2002, the percentage rate for 9.3% is "7.54%" for taxable years beginning on or after January 1, 2003, and before January 1, 2004. The amendment modified the percentage rate to "7.44%." It appears this change was unintentional.

ECONOMIC IMPACT

Revenue Estimate

Revenue Impact (\$ Billions)					
Fiscal Year	2003-04	2004-05	2005-06	2006-07	2007-08
Revenue Loss	-12.2	-17.3	-25.8	-34.3	-40

This bill does not consider the possible changes in employment, personal income, or gross state product that could result from this measure.

Revenue Discussion

The above estimates are based on the department's current PIT model, expressed to the nearest hundreds of millions of dollars. These estimates incorporate the incremental AMT rate reduction with the PIT rate reduction. The full impact of the elimination of PIT and AMT would be seen in 2007-08 and thereafter.

LEGISLATIVE STAFF CONTACT

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